



October 6, 2010

Ms. Susan Sims, Chief Deputy Director
California Department of Water Resources
P.O. Box 942836, Room 1115-1
Sacramento, CA 94236-0001

Dear Ms. Sims:

Final Report—Marina Coast Water District, Proposition 13 Grant Audit

The Department of Finance, Office of State Audits and Evaluations (Finance), has completed its audit of Marina Coast Water District's (MCWD) Proposition 13 Grant 4600002550 for the period September 30, 2003 through March 31, 2005.

The enclosed report is for your information and use. The draft report was issued August 26, 2010 and MCWD's response required further analysis. As a result of our analysis, changes were made to the *Results* Section. Specifically, questioned amounts in Observation 1 have been decreased to \$115,203.

In accordance with Finance's policy of increased transparency, this report will be placed on our website. Additionally, pursuant to Executive Order S-20-09, please post this report in its entirety to the Reporting Government Transparency website at <http://www.reportingtransparency.ca.gov/> within five working days of this transmittal.

We appreciate the assistance and cooperation of MCWD. If you have any questions regarding this report, please contact Frances Parmelee, Manager, or Sherry Ma, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

David Botelho, CPA
Chief, Office of State Audits and Evaluations

Enclosure

cc: On following page

cc: Mr. Suresh Prasad, Finance Director, Marina Coast Water District
Mr. Jim Dowless, Operations and Maintenance Superintendent, Marina Coast Water District
Ms. Perla Netto-Brown, Controller, California Department of Water Resources
Mr. Jim Libonati, Deputy Director, California Department of Water Resources
Mr. Jeffrey Ingles, Chief Auditor, California Department of Water Resources
Ms. Gail Chong, Chief, Bond Accountability Office, California Department of Water Resources
Mr. Eric Koch, Chief, Flood SAFE Program Management Office, Division of Flood Management, California Department of Water Resources
Mr. Eric Hong, Supervising Engineer, California Department of Water Resources
Ms. Tracie Billington, Chief, Special Projects Section, California Department of Water Resources
Mr. Patrick Kemp, Assistant Secretary for Administration and Finance, California Natural Resources Agency
Mr. Bryan Cash, Deputy Assistant Secretary, California Natural Resources Agency
Ms. Julie Alvis, Deputy Assistant Secretary, California Natural Resources Agency

A GRANT AUDIT

Marina Coast Water District Proposition 13 Bond Program Grant Agreement 4600002550



Source: Pressure replacement valves in the Fort Ord community

Prepared By:
Office of State Audits and Evaluations
Department of Finance

MEMBERS OF THE TEAM

Frances Parmelee, CPA
Manager

Sherry Ma, CRP
Supervisor

Staff
Kylie Le
Charles White

Final reports are available on our website at <http://www.dof.ca.gov>

You can contact our office at:

Department of Finance
Office of State Audits and Evaluations
300 Capitol Mall, Suite 801
Sacramento, CA 95814
(916) 322-2985

TABLE OF CONTENTS

Background, Scope, and Methodology	1
Results	3
Response.....	5
Evaluation of Response	8

BACKGROUND, SCOPE, AND METHODOLOGY

BACKGROUND

In March 2000, California voters approved the Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Bond Act (Proposition 13), which authorized the State of California to sell \$1.97 billion in general obligation bonds. The bond proceeds provide funds for safe drinking water, water quality, flood protection, and water reliability programs. Proposition 13 also provides funding for the protection, restoration, and interpretation of the diverse cultural influences and extraordinary human achievements that have contributed to the unique development of California.

The California Department of Water Resources (DWR) is one of many state departments that administer Proposition 13 programs. The mission of DWR is to manage the water resources of California in cooperation with other agencies, and to protect, restore, and enhance natural and human environments. Proposition 13's Urban Water Conservation Program provides funding to urban water purveyors, other entities, and individuals interested in urban water conservation to finance feasible, cost effective urban water conservation projects.

DWR awarded the Marina Coast Water District (MCWD) a \$959,029 grant for its Water Conservation System Rehabilitation Program to replace faulty gate valves and pressure reduction valves within the Fort Ord community. This will allow the restoration of proper pressure zones so the system will operate more efficiently and allow for better isolation of specific areas in the event of breaches, which will ultimately reduce water loss.

MCWD is a municipal-owned water system formed in 1960. Its mission is to provide high quality water, wastewater, and recycled water services to MCWD's expanding communities through management, conservation, and development of future resources at reasonable costs. The MCWD is governed by an elected five-member Board of Directors.¹

¹ Source: Marina Coast Water District website

SCOPE

In response to the Department of Finance's (Finance) bond oversight responsibilities, Finance conducted an audit of MCWD's Proposition 13 grant 4600002550 for the period September 30, 2003 through March 31, 2005.

The audit's objective was to determine whether MCWD's grant expenditures were in compliance with applicable laws, regulations, and the grant requirements. In order to design adequate procedures to evaluate fiscal compliance, we obtained an understanding of the relevant internal controls. We did not assess the efficiency or effectiveness of program operations.

MCWD management is responsible for ensuring accurate financial reporting and compliance with applicable laws, regulations, and grant requirements as well as evaluating the efficiency and effectiveness of the program. DWR and the California Natural Resources Agency are responsible for state-level administration of the bond programs.

METHODOLOGY

To determine whether MCWD's grant expenditures were in compliance with applicable laws, regulations, and the grant requirements, we performed the following procedures:

- Interviewed key personnel to obtain an understanding of the grant-related internal controls.
- Examined the grant files maintained by DWR, the grant agreement, and applicable policies and procedures.
- Reviewed MCWD's accounting records, vendor invoices, and bank statements.
- Selected a sample of expenditures to determine if costs were allowable, grant-related, incurred within the grant period, supported by accounting records, and properly recorded.
- Performed procedures to determine if other revenue sources were used to reimburse expenditures already reimbursed with grant funds.
- Reviewed contracts MCWD had with other agencies associated with this grant.

The results of the audit are based on our review of documentation, other information made available to us, and interviews with staff directly responsible for administering bond funds. The audit was conducted from March 2010 through August 2010.

This audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our observations and recommendations based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our observations and recommendations.

Except as noted below, the Marina Coast Water District's (MCWD) expenditures were in compliance with applicable laws, regulations, and the grant requirements. The Schedule of Claimed, Audited, and Questioned Amounts is presented in Table 1.

Table 1: Schedule of Claimed, Audited, and Questioned Amounts

Grant Agreement 4600002550 For the Period September 30, 2003 through March 31, 2005			
Category	Claimed	Audited	Questioned
Pressure Valve Replacement	\$ 394,000	\$ 385,836	\$ 8,164
Gate Valve Replacement	317,539	317,539	0
Construction Management and Engineering	125,371	29,768	95,603
Contingency	85,057	73,621	11,436
Total Expenditures	\$ 921,967	\$ 806,764	\$ 115,203

Observation 1: Ineligible Expenditures Claimed for Reimbursement

MCWD claimed \$115,203 of ineligible expenditures. Approximately \$113,557 was for expenditures outside the grant period (\$93,957 incurred from January 1, 2003 through September 30, 2003 and \$19,600 incurred from April 1, 2005 through May 31, 2005). Additionally, \$1,646 was incurred for ineligible personnel and contractor labor rates in excess of the allowed contract amounts.

Recommendation:

Obtain reimbursement from MCWD for the \$115,203 questioned amount. DWR will make the final determination regarding the resolution of this observation.

Observation 2: Non-Compliance with Grant Agreement

The grant agreement required various reports to be submitted to DWR. MCWD did not submit the following documents:

- The grant agreement states upon project completion, MCWD shall provide a final inspection and certification by a California Registered Civil Engineer indicating the project has been completed in accordance with submitted final plans and specifications. MCWD failed to submit such documentation. Due to MCWD staff turnover, it could not be determined whether a final inspection and certification was conducted.
- Only 1 out of 5 water savings reports was submitted to DWR, which includes the reporting of total annual water savings, net annual water savings, and a description of how the water produced by the project is being used. The grant agreement states for the first operational year, a revision of the water savings estimate should be reported, and this process should subsequently be repeated for a total of five consecutive operational years.
- Only 3 out of 6 quarterly progress reports was submitted to DWR. In addition, the final report was submitted 393 days late. MCWD indicated it only submitted progress reports when a reimbursement request was prepared. The grant agreement states the Grantee shall submit quarterly progress reports on the project's (status). Additionally, within 60 days of project completion, the Grantee shall submit a final progress report. Failure to timely submit required reports may result in the withholding or disallowance of grant payments, the reduction or termination of grant funds, and/or the denial of future grant funding.

Recommendation:

For future grants, MCWD should submit required documents in accordance with the grant terms.



MARINA COAST WATER DISTRICT

11 RESERVATION ROAD • MARINA, CA 93933-2099

Home Page: www.mcwd.org

TEL: (831) 384-6131 • FAX: (831) 883-5995

DIRECTORS
KENNETH K. NISHI
President

WILLIAM Y. LEE
Vice-President

THOMAS P. MOORE
HOWARD GUSTAFSON
DAN BURNS

September 7, 2010

Mr. David Botelho, CPA
Department of Finance
Office of State Audits and Evaluations
300 Capitol Mall, Suite 801
Sacramento, CA 95814

RE: Draft Report-Marina Coast Water District, Proposition 13 Grant Audit

Dear Mr. Botelho,

This letter is in response to your draft audit report of our Proposition 13 Grant 4600002550 dated August 26, 2010 and received by our Finance Director, Suresh Prasad, on August 30, 2010.

Audit Observation 1: Ineligible Expenditures Claimed for Reimbursement

Marina Coast Water District (MCWD) believes expenditures, listed in the draft audit report as ineligible, meet the terms of the grant as described in Exhibit A (Grant Contract Standard Conditions) of the grant contract. MCWD reviewed a breakdown of listed ineligible expenses (acquired from Frances Parmelee) and found upon investigation that all costs were authorized by the Department of Water Resources (DWR). Costs incurred prior to September 30, 2003 were all for design expenditures, not construction costs, which the DWR authorized via e-mail to our District Engineer at the time. Additionally, those costs incurred after March 31, 2005 were also authorized by DWR and disbursed to the District. The \$2,988 attributed to differences in labor rates is incorrect. Based on the detailed breakdown, the amount should be \$114.

Audit Observation 2: Non-Compliance with Grant Agreement

There were three points of non-compliance listed in the draft report (1) final documentation not submitted, (2) 1 out of 5 water savings reports submitted to DWR, and (3) 3 out of 6 quarterly progress reports were submitted to DWR. Unfortunately, due to staff turnover, MCWD is unable to locate the documentation for items (1) and (2); however, current staff is working to ensure that all future reporting is filed into our Laserfiche system for easy retrieval. With regards to item (3), the Project Engineer at

MCWD did receive authorization from DWR to submit progress reports that coincided with the invoice period. Three progress reports were submitted to DWR because only 3 invoices were submitted for reimbursement.

Thank you for the opportunity to respond to your draft report. If you have any questions or comments regarding this matter, please feel free to contact me at (831) 883-5950.

Sincerely,

Original signed by:

Kelly M. Cadiente
Director of Administrative Services

cc: Mr. Jim Heitzman, General Manager, Marina Coast Water District
Mr. Carl Niizawa, Deputy General Manager/District Engineer, Marina Coast Water District

EVALUATION OF RESPONSE

The Department of Finance (Finance) reviewed the Marina Coast Water District's (MCWD) response, dated September 7, 2010, to our draft audit report. We commend MCWD's willingness to take corrective action to ensure future project reports can be easily accessed. Our evaluation of MCWD's response is as follows:

Observation 1: Ineligible Expenditures Claimed for Reimbursement

MCWD claims the expenditures incurred prior to the grant agreement's effective start date were for design expenditures. MCWD contends those expenditures as well as expenditures incurred after the effective end date meet the grant terms as described in Exhibit A, and were authorized by the California Department of Water Resources (DWR) via email. However, per the grant agreement, the scope of work was to perform both engineering design and construction during the grant agreement period. MCWD was unable to provide us evidence to demonstrate DWR authorized expenditures before and after the grant agreement's effective dates.

After issuance of our draft report, further analysis of MCWD's documentation identified a decrease in total questioned costs to \$115,203. The questioned costs are due to ineligible personnel costs as well as excessive contract labor rates charged for authorized personnel. Without documentation to support DWR's approval of ineligible expenditures, our observation remains as reported. We recommend MCWD reimburse DWR \$115,203; however, DWR will make the final determination regarding resolution of these questioned amounts.

Observation 2: Non-Compliance with Grant Agreement

MCWD states DWR provided authorization to submit progress reports in conjunction with invoice submittal. The grant agreement stipulated quarterly reports be submitted and no other provisions to the contrary were included. Upon our request, evidence of prior DWR authorization amending this quarterly report requirement was not provided by MCWD. Our observation remains as reported.